

USDA Foreign Agricultural Service

GAIN Report

Global Agricultural Information Network

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Wine Market Report

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Report Highlights:

Despite a challenging economic environment, the South Korean wine market continues to expand. Korea's wine imports in 2015 totaled a record high \$190 million, up 4 percent from 2014. The United States remained the fourth largest supplier of wine to Korea by shipping a record high \$23 million during the period, up 9 percent from the previous year. While American wine faces elevated competition against products from export-oriented competitors, American wine should remain one of the top choices of Korean wine consumers as it is firmly positioned in the market for its unique quality and fair value.

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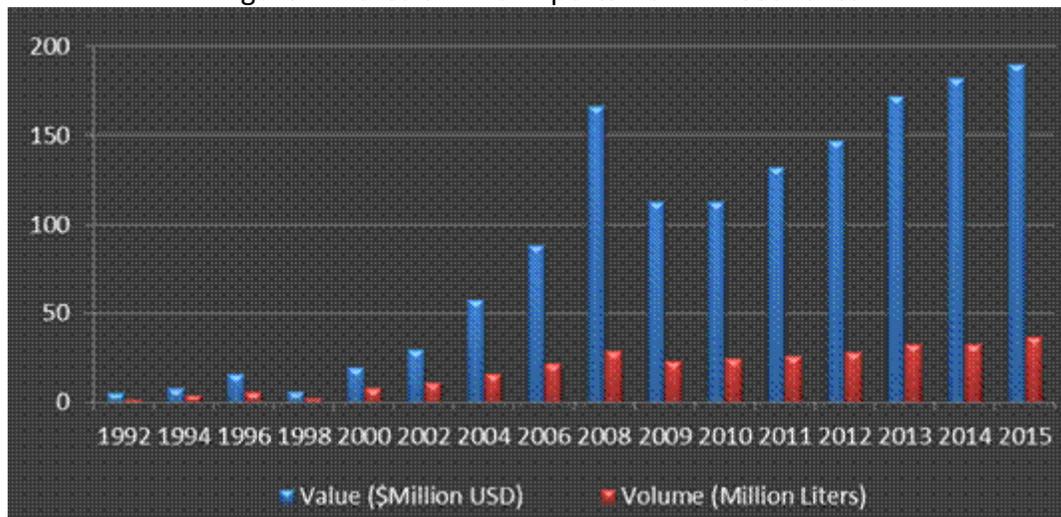
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SECTION I: MARKET OVERVIEW

- South Korea's (herein after referred as Korea) wine imports from all countries totaled a record high \$189.8 million in 2015, up 4.2 percent from 2014. Total volume of imports amounted to a record high 37.1 million liters, up 12.4 percent. Despite the economic downturn, Korea's wine imports are likely to continue a steady growth in the coming years as more Korean consumers choose wine in their pursuit for healthy and trendy lifestyle.

Figure 1: Korea's Wine Imports from All Countries

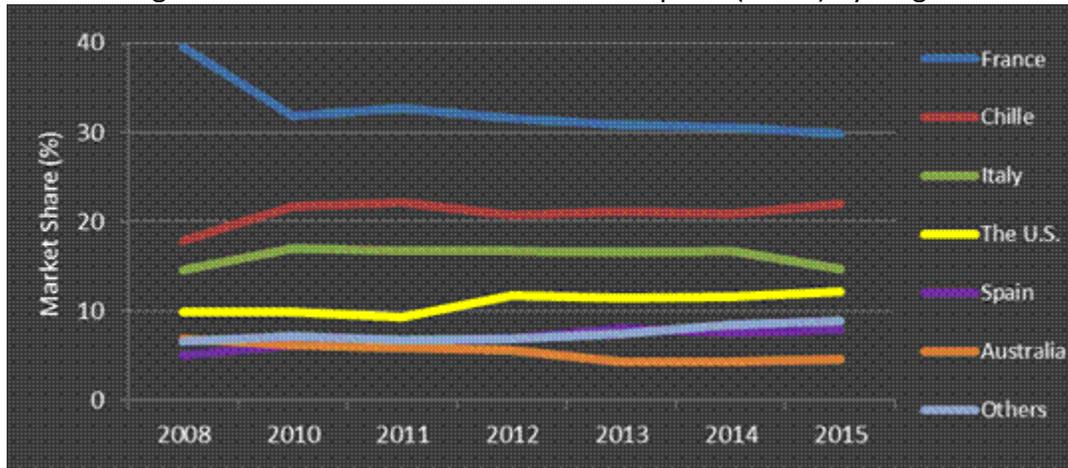


Source: Korea Trade Information Service Database (KOTIS, CIF Value)

- Imports from the United States amounted to a record high \$23.1 million in 2015, up 8.9 percent from 2014. In terms of volume, imports from the United States amounted to 3.4 million liters, up 2.0 percent from the previous year. The United States remained the fourth largest exporter of wine to Korea in 2015 with a 12.2 percent value market share (or sixth with a 9.3 percent volume market share). Strong growth of wine sales in large-scale hypermarket grocery stores coupled with elimination of import duty (15 percent) under the United States – Korea Free Trade Agreement (KORUS FTA, implemented in 2012) has been the key momentum behind the solid growth of American wine in Korea in recent years.
- However, American wine faces elevated competition in Korea against both quality-imaged suppliers (France, Italy) and value-imaged suppliers (Chile, Australia, and Argentina). In addition, as Korean consumers welcome wines from more diverse origins, other competitors (Spain, New Zealand, Germany, and South Africa) are likely to expand their presence in the market down the road. Competitors are export-oriented and maintain aggressive export promotions targeting Korea.
- Nevertheless, American wine should remain one of the top choices of Korean wine consumers as American wine is firmly positioned in the market with a brand image of unique quality and fair value. The close political and economic tie between Korea and the United States continues to help promote American brands and products in Korea. Additionally, diversified taste of Korean wine consumers should expand export opportunities for American wine from wider

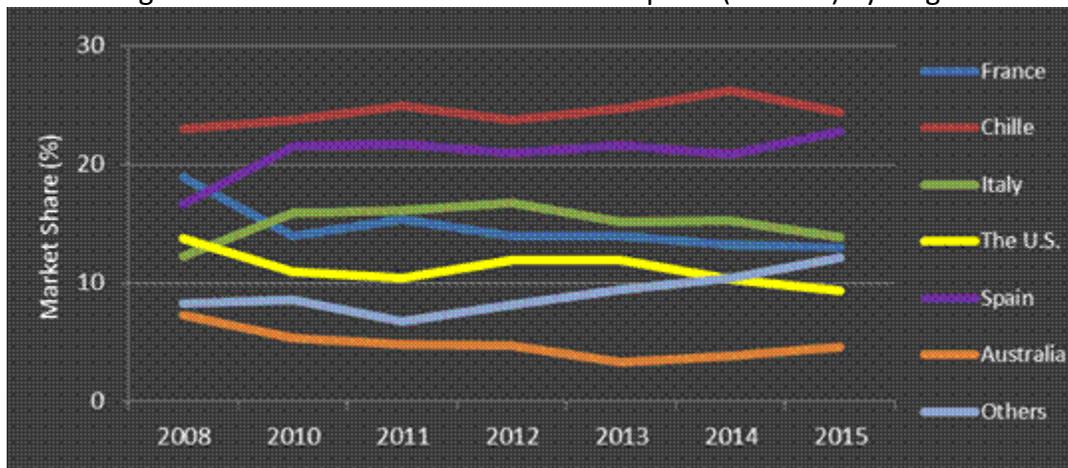
origins, such as the states of Washington and Oregon, in the coming years.

Figure 2: Break Down of Korea's Wine Imports (Value) by Origin



Source: Korea Trade Information Service Database (KOTIS)

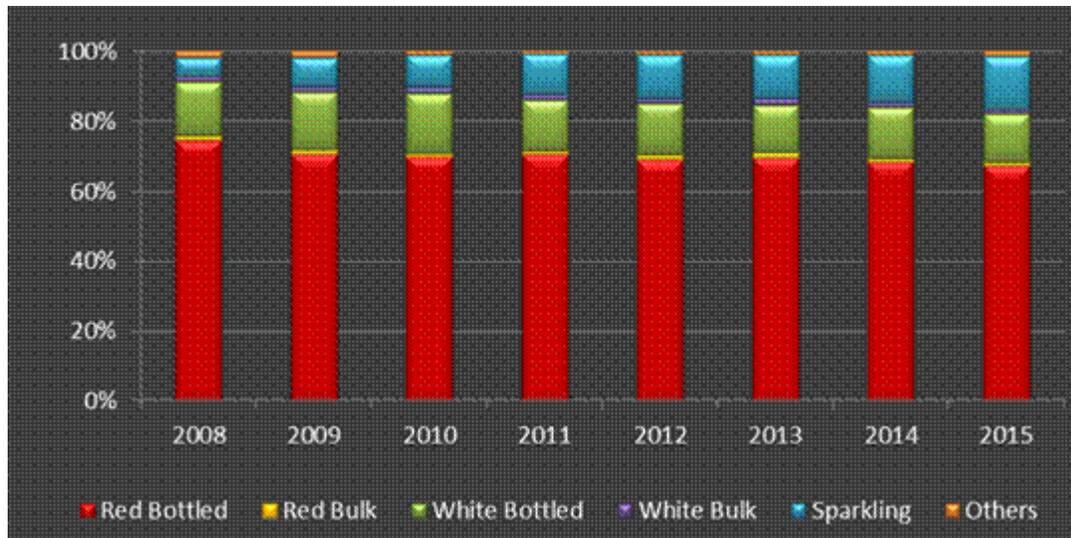
Figure 3: Break Down of Korea's Wine Imports (Volume) by Origin



Source: Korea Trade Information Service Database (KOTIS)

- Due to highly publicized health benefits of antioxidants in Korea, red wine accounted for a 68.5 percent of total wine imports in terms of value (or a 63.7 percent in volume) in 2015. However, an increased number of local wine consumers is adopting the idea of food-wine pairing, and as a result white wine and sparkling wine are likely to gain additional market share in the coming years. In particular, sparkling wine has shown the most outstanding growth in recent years and accounted for a 15.2 percent of total wine imports in terms of value in 2015 (compared to only 5.5 percent in 2008). American wine maintains balanced market share in both red and white wine categories. But, American wine is lagging far behind competitors in sparkling wine.

Figure 4: Breakdown of Korea's Wine Imports (Value) by Category



Source: Korea Trade Information Service Database (KOTIS)

- The Korean wine market is still in its early stage of development. Korea lacks a local wine industry that can compete against international suppliers for price and quality. Although Korea’s wine imports have evolved dramatically over the last two decades since the Korean government liberalized the market in early 1990’s, wine is still considered a premium alcohol beverage among the general public and is largely consumed by a limited population of young professionals and affluent elderlies. According to industry data, imported wine accounted for 4.6 percent of total alcohol beverage sales in Korea in terms of value in 2014 (or only 0.9 percent in terms of volume). However, marketers in general agree that the Korean wine market should eventually grow to a size comparable to other developed markets. As an indicator, Japan’s wine imports in 2015 were \$1.6 billion which was almost nine times larger than Korea’s (Japan’s population is 2.5 times larger than Korea’s). Key barriers that restrict further growth of the Korean wine market are high distribution cost and tight government regulations, which makes retail price of imported wine in Korea several times higher than the price in the export country.

SECTION II: MARKET SECTOR OPPORTUNITIES AND THREATS

Table 1: Market Opportunities & Challenges

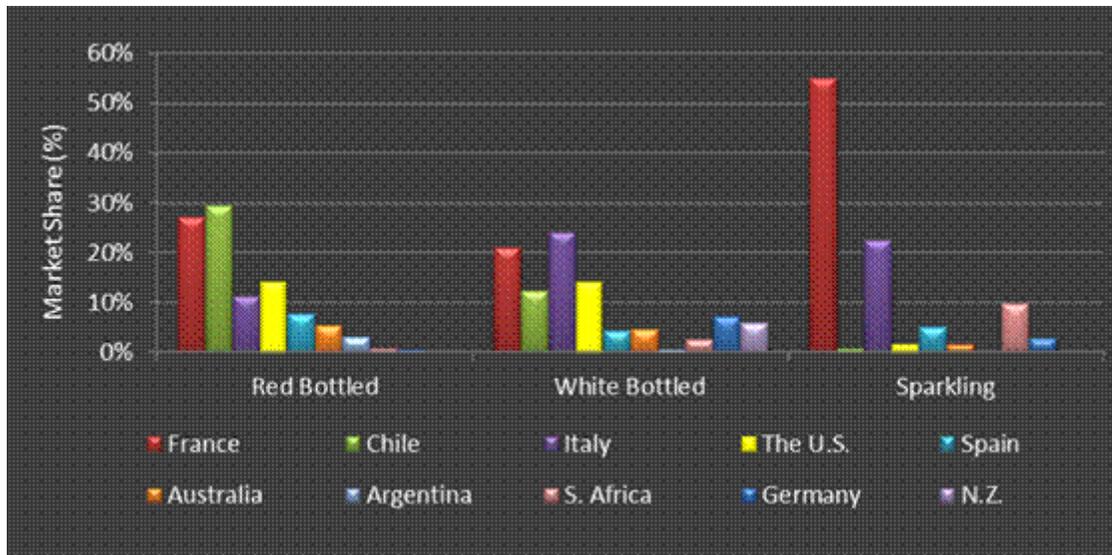
Advantages	Challenges
Korean consumers are paying extra attention to a healthy diet. As a result, consumption of alcoholic beverages with less alcohol content is on an increase. In addition, the health benefit of drinking red wine is highly publicized in the market.	Both consumers and traders in Korea in general have limited knowledge of and experience with American wine. Many of them harbor an old idea that European producers lead the international wine market.
Korean consumers maintain strong attention to international food trends, including food-wine	Retail price of imported wine in Korea is very high due to high distribution cost and tight

pairing. Consumer taste continues to evolve to generate demand for imported products from more diversified origins.	government regulations. As a result, wine is still recognized as a premium product among the general public, and is consumed by a limited population.
The wine market in Korea is still in its early stage of development. Considering the size of overall alcohol beverage consumption in the market, wine has solid growth potential down the road.	American wine faces elevated competition against both old and new world competitors in Korea. Competitors are export-oriented by nature and deploy aggressive export promotions targeting Korea.
American wine is firmly positioned in the market, especially among young consumers with a brand image of unique quality and fair value. Implementation of the KORUS FTA has strengthened the value proposition of American wine.	In general, Korean importers do business directly with foreign wineries. However, many American wineries rely on export middlemen for emerging markets such as Korea. Export opportunities may not be realized without American producers' catered attention to the Korean market.
Local Korean wine producers present little competition to imported products. On the other hand, Korea imports a significant volume of bulk wine for local blending and bottling.	Imported wine is subject to complicated labeling and food safety standards in Korea, which change frequently with limited lead time.

1. COMPETITORS

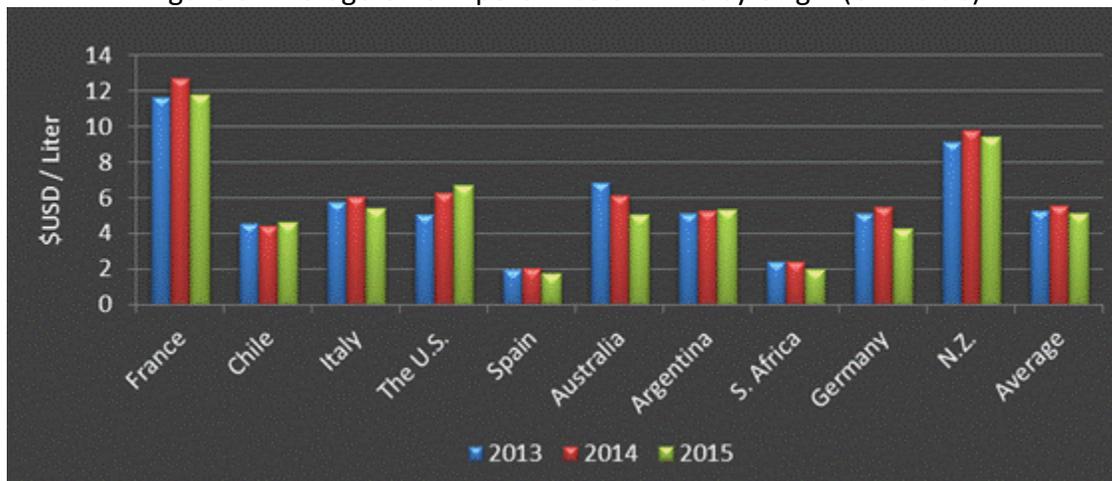
- France: Many Koreans, both wine opinion leaders and regular consumers, harbor an idea that European countries, France in particular, are the leading wine producers in the world. As a result, France has remained the leading exporter of wine to Korea over the years. Imports from France amounted to \$56.8 million (4.8 million liters) in 2015, up 2.1 percent from 2014 (up 9.7 percent in volume). The Korea-EU Free Trade Agreement, implemented on July 1, 2011 eliminated 15 percent import duty on French (and other EU origin) wine. However, overall market share held by France has continued a decline since mid-2000's because French suppliers lost much of the ground in value-oriented (entry, budget and mid-class) product segments of the market to Chile, the United States, Italy and Spain. Italy and the United States have also eroded some of the market demand for high-end French wine. Consequently, French suppliers have been focusing on upper tier (mid-class, premium and luxury) product segments of the market. French suppliers should also continue to capitalize on the rapidly growing sparkling wine category.

Figure 5: Breakdown of Korea's Wine Imports by Category/Origin
(in Value, Year 2015)



Source: Korea Trade Information Service Database (KOTIS)

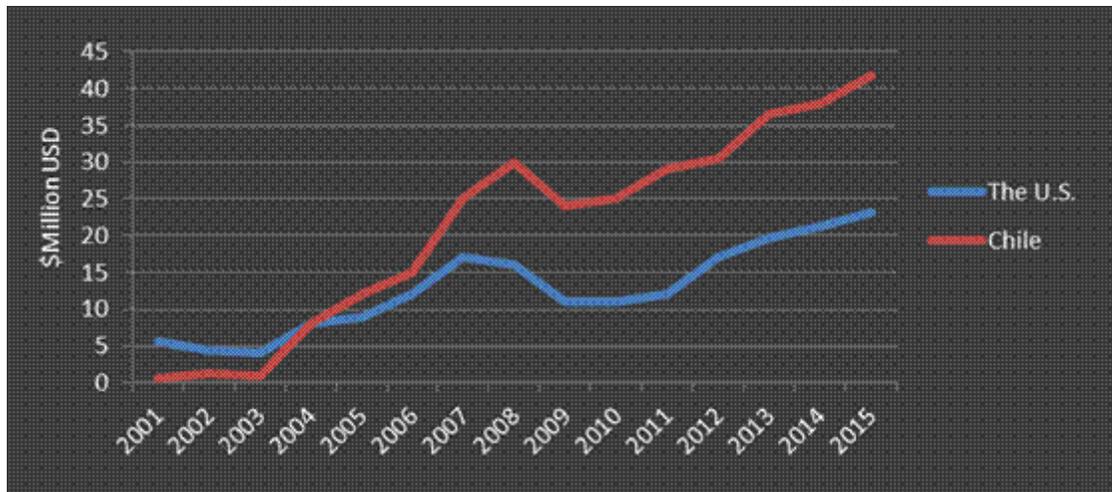
Figure 6: Average Unit Import Price of Wine by Origin (CIF Value)



Source: Korea Trade Information Service Database (KOTIS)

- Chile: Wine imports from Chile totaled \$41.7 million (9.0 million liters) in 2015, up 9.9 percent from 2014 (up 4.6 percent in volume). The strong rise of Chilean wine in Korea started in 2005 as a result of the Korea-Chile Free Trade Agreement implemented in April 2004. The FTA advantage (duty-free market access) solely enjoyed by Chilean suppliers in Korea disappeared upon implementation of the Korea-EU FTA (July 2011) and the United States – Korea FTA (March 2012). However, many Korean consumers still harbor the conception that Chilean wine offers greater value. Chilean wine should continue to present tough competition to other countries, including the United States particularly for red wine category targeting value-oriented product segments. On the other hand, Chile presents less competition for white and sparkling wine.

Figure 7: Effect of FTA* on Chile's Wine Exports to Korea



Source: Korea Trade Information Service Database (KOTIS)

*Note: Korea-Chile FTA was implemented in 2004 / Korea-the U.S. FTA in 2012

- Italy: Wine imports from Italy amounted to \$27.8 million in 2015, down 8.3 percent from 2014. In terms of volume, wine imports from Italy saw 2 percent growth to 5.1 million liters. The decline of imports in value was largely due to weak performance of bottled white wine (down 26.7 percent from the previous year). Despite the mixed outcome in 2015, Italian wine is likely to maintain solid growth in Korea in the coming years due to on-going popularity of Italian cuisine and travel theme among Korean consumers. It is also notable that Italy has become a leading supplier of white wine to Korea based on the huge success of low-priced *Frizantte* style product (white wine with small amount of bubbles) made from Moscato grapes. Italy is also gaining from the expansion of the sparkling wine category.
- Spain: Wine imports from Spain amounted to \$14.8 million (8.5 million liters) in 2015, up 7.2 percent from 2014 (up 24.4 percent in volume). In part for value in a sluggish economy and for diversified tastes, Spanish wine is likely to draw additional consumer attention in Korea in the coming years. It is notable that a significant portion of Spanish wine imported into Korea is bulk wine for local bottling or blending use, not only for grape wine but more for other types of local fruit wine making such as Japanese apricot wine. Bulk wine accounted for a 46.7 percent of Spanish wine imports in terms of volume in 2015.
- Australia: Wine imports from Australia totaled \$8.7 million (1.7 million liters) in 2015, up 10.5 percent from 2014 (up 33.3 percent in volume). Depreciation of the Australian dollar since 2014 coupled with the Korea-Australia Free Trade Agreement implemented in December 2014 (15 percent duty was eliminated) should provide significant growth momentum for Australian wine exports to Korea in the coming years.
- Other Competitors: Wine imports from all minor suppliers combined, including Argentina, South Africa, Germany, and New Zealand totaled \$16.9 million (4.5 million liters) in 2015, up 9.7 percent from 2014 (up 12.1 percent in volume). Argentina is emerging as an origin of good value red wine while New Zealand is emerging for quality white and red wine. Increased consumer taste for products from more diverse origins is likely to increase demand for wine

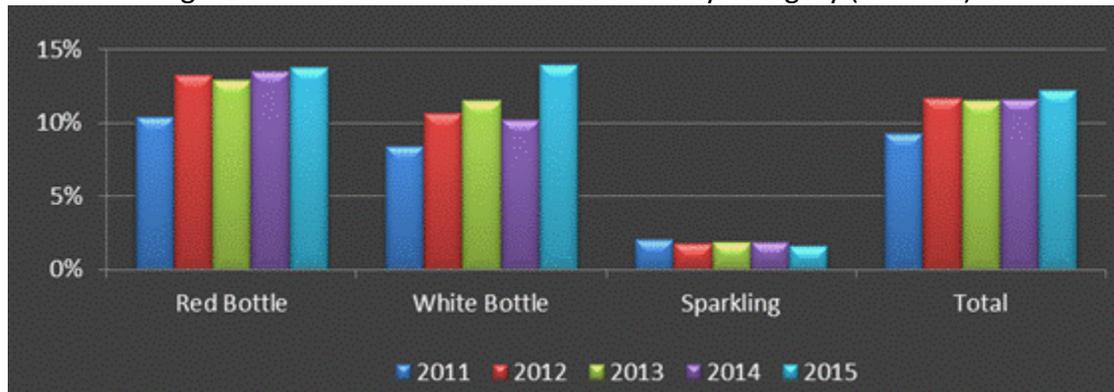
from these minor origins in the coming years.

- Competitors are export-oriented and maintain aggressive marketing and promotional efforts in Korea. Competitors' major programs in Korea include: local seminars and tasting events, buyer and journalist delegations to international wine exhibitions (Vinexpo, Vinitaly and ProWine), cultural and culinary events incorporating wine components, exhibitions at local trade shows, education program partnerships with local wine schools, and local sommelier competitions.

2. THE UNITED STATES

- Korea's wine imports from the United States totaled a record high \$23.1 million (3.4 million liters) in 2015, up 7.2 percent from 2014 (up 2.0 percent in volume).
- American wine accounted for 12.2 percent of Korea's total wine imports in terms of value in 2015, up 0.6 percent point from 2014. American wine's overall market share has held its position in the growing market since 2012 after implementation of the KORUS FTA. It is also notable that American wine maintained balanced market share in both red and white wine categories. However, American wine lagged far behind competitors in sparkling wine category which was the fastest growing category in the market.

Figure 8: American Wine's Market Share by Category (in Value)



Source: Korea Trade Information Service Database (KOTIS)

- American wine's solid success in Korea has been largely due to strong performance of products by large-scale American suppliers that target value-oriented (entry and budget product) segments of the market. As a reflection of under-developed taste of general Korean wine consumers as well as on-going economic concerns, entry and budget product segment together account for over a half of overall wine market sales in Korea currently. Rapid growth of wine sales in large-scale hypermarket stores in recent years has also provided additional momentum for the value-oriented product segments to expand. Consistent quality and targeted promotions were the key for the firm presence that these large production American wine brands managed to establish in the market. It is notable that the market has seen strong expansion of "wine cocktail drinks", in general a blend of wine, sugar, fruit juice and carbon dioxide, in recent years targeting young and female wine consumers in the entry segment.

- American wine that targets high-end (luxury product) segment of the market have also enjoyed steady (but limited) success over the years. Top tier Korean wine consumers are well traveled and are aware of many established high-end American wine brands particularly from Napa valley. Products targeting the luxury product segment of the market are in general distributed through selected retail outlets such as luxury bars and premium department stores. Gift season is also an important window of sales for the luxury segment products. However, the number of bottles allocated to the Korean market by most of the high-end American suppliers is very limited. Nevertheless, high-end American wine continues to make important contribution in developing quality image on the overall American wine.
- On the other hand, American wine that targets mid-class and premium product segments of the market are facing tough competition from both old and new world competitors. The mid-class product segment in particular is the market that holds the key for building brand-loyal consumers and long-term financial success. Unfortunately, American wine has not been successful in retaining those consumers who started their early wine experience with entry or budget segment American wine and later traded up to higher quality bottles. Many of these trade-up consumers have found their ways to Chilean, Italian and French wine for more diversified selections, better value, aggressive point-of-sales promotions, or stronger quality/brand recognition. Marketers also point out that Korean wine consumers in general show higher price resistance to American wine in these segments than to competitors' products because many of them have traveled to the United States and are aware of the going retail price of the American wines.

Table 2: American Wine’s Competitive Position in Market Segment

Market Segment	Retail Price*	American Wine’s Competitive Position	Major Competitors
Entry	Below KRW10,000	Mid	Chile, Italy, Spain
Budget	KRW10,000-30,000	Mid	Argentina, Australia, Chile, France, Germany, Italy, South Africa, Spain
Mid-class	KRW30,000-60,000	Mid-Low	Argentina, Australia, Chile, France, Italy, Germany, New Zealand, South Africa, Spain
Premium	KRW60,000-100,000	Mid-Low	Australia, Chile, France, Italy, Germany, New Zealand, Spain
Luxury	Above KRW100,000	Mid	France, Italy

Source: Industry Interviews by ATO Seoul

* Note: Retail price in off-premise wine shops inclusive of price discounts
 \$1 USD = KRW1,150 won as of July 1, 2016

3. LOCAL WINE PRODUCTION

- Grape wine production in Korea is expected to remain small as it lacks competitiveness in price and quality against imported products. The high cost of farm land and labor, coupled with unfavorable weather condition, is the major obstacle that restricts development of large-scale wine industry in Korea. Currently, there is no *Vitis. vinifera* vine commercially cultivated in Korea. Most of the local wines are either souvenir wines made in small quantity or blends between local table grape wine and imported bulk wine.
- Instead of maintaining local vineyards, major Korean liquor companies have switched to either co-bottling in foreign wineries or importing bulk wine for local blending/bottling. Lotte Chilsung (www.wine.co.kr), Hite-Jinro (www.terrior.co.kr) and Gooksoondang L&B (www.ksdlb.com) are the major players that currently operate local bottling and/or co-bottling in foreign wineries. A total of 5.2 million liters of bulk-packaged wines (products shipped in two liter or larger size containers) were imported in 2015, most of which were for local blending/bottling use. It is notable that a large portion of imported bulk white wine has been used for blending 'Japanese apricot wine' and other types of local fruit wine.
- There are some fruit wines produced in Korea from locally grown fruits, including Japanese apricot, Korean pear, persimmon and *Bok-boon-ja* (local berry fruit similar in appearance to raspberry). Local fruit wine in general has a sweet taste and easy drinking character (many of them are added with sugar and alcohol). The production of *Bok-boon-ja* wine has been on a rapid increase partly due to active regulatory and financial support by the local government. However, these local fruit wine presents little direct competition to imported wine. Rather they are likely to help the general public develop taste for higher quality imported table wine.

4. ALCOHOLIC BEVERAGE MARKET

- Korea is one of the leading markets in the world for alcoholic beverages in terms of per capita drinking. Drinking is considered an important part of social life and is often encouraged at social and business occasions. Although drinking is decreasing among the elderly population for health concerns, the market is gaining new consumers from young and female population.
- The cash register sales of alcoholic beverage products in Korea totaled KRW10.8 trillion (about \$9.7 billion) in 2014, up 4 percent from the previous year. Beer and soju (traditional Korean hard liquor which is now made by blending imported high strength alcohol from sugar cane and sweet potato) together accounted for a 77 percent of the alcohol beverage market sales in terms of value (or 85 percent in volume). Imported (grape) wine accounted for a 4.6 percent of the alcohol beverage market sales (or 0.9 percent in volume).

Table 3: Cash Register Sales of Alcoholic Beverage Products in Korea (2014, Billion KRW)

Product Category	Local Products	Imported Products	Sub-Total
Beer	4,329	515	4,844
Soju	3,385	3	3,388
Distilled Spirits	95	924	1,020

Rice Wine	597	63	659
Fruit Wine*	121	489	610
Others	96	134	230
Total	8,623	2,129	10,751

Source: Korea Alcohol Beverage Industry Association, Korea Wine & Spirits Importers Association

*Note: Local products under Fruit Wine category includes all wine made from fruits. Imported fruit wine refers to grape wine only.

Table 4: Volume Sales of Alcoholic Beverage Products in Korea (2013, Million Liter)

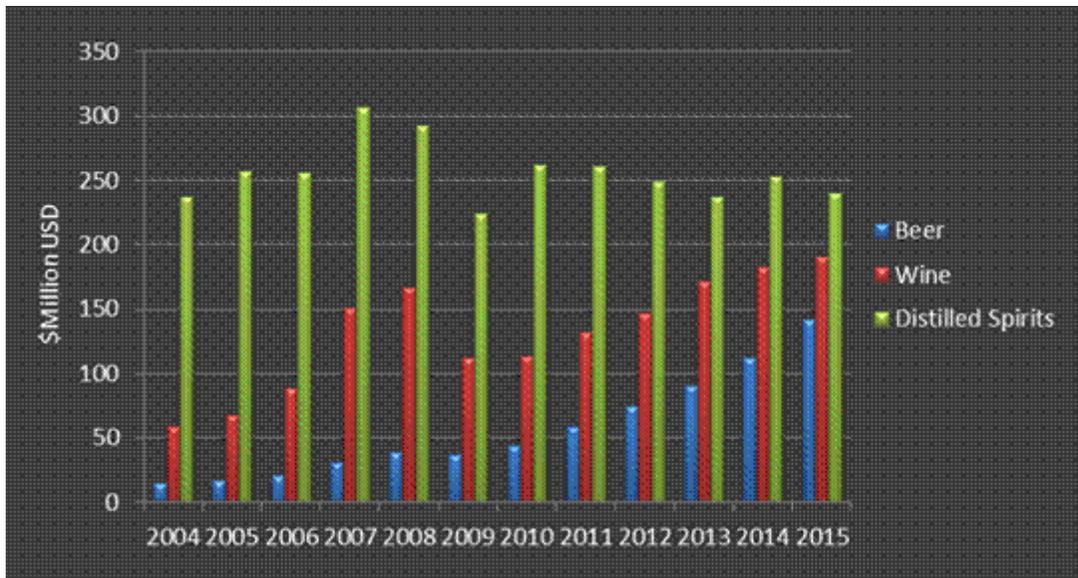
Product Category	Local Products	Imported Products	Sub-Total
Beer	2,056	119	2,175
Soju	958	0	959
Distilled Spirits	7	23	30
Rice Wine	450	4	454
Fruit Wine*	18	33	51
Others	16	15	31
Total	3,505	195	3,700

Source: Korea Alcohol Beverage Industry Association, Korea Wine & Spirits Importers Association

*Note: Local products under Fruit Wine category includes all wine made from fruits. Imported fruit wine refers to grape wine only.

- Increased health concerns among the general public is promoting the demand for products with less alcohol content such as wine and beer. Soju has shown a steady performance in recent years mainly by continued launchings of new products that contained less alcohol.
- While local products dominate the market for beer and soju, imported products continue to lead the market for distilled spirits and fruit wine. While imports of distilled spirits are stagnating due to increased health concerns, Korean consumers' strong demand for diversified taste is likely to generate additional imports for wine, beer and sake (clear type rice wine) in the coming years.

Figure 9: Korea's Alcoholic Beverage Imports



Source: Korea Trade Information Service Database (Beer HS2203; Wine HS2204; Distilled Spirits HS2208)

5. DISTRIBUTION CHANNEL

5-1. OFF-PREMISE MARKET

- While no official statistics are available from the Korean government, industry sources indicate that off-premise channel (supermarkets and liquor stores) currently accounts for over 70 percent of the total wine sales in Korea. In particular, large-scale retail stores represented by hypermarkets and warehouse discount stores are likely to remain the dominant retail channel for wine in the coming years.
- Large-scale retail stores in general have a designated wine section that offers a large selection of wines to everyday shoppers. For example, a typical hypermarket store carries about 200 different varieties of wine, most of which are entry through mid-class segment products under KRW60,000. Leading retail companies are putting efforts to expand their “private label brand” wine program for better control of the price and higher customer loyalty. For example, “G7” wine brand by E Mart (the leading hypermarket store chain in Korea) has now become the bestselling wine in the store. At the same time, large-scale retail companies are trying to expand direct purchases from foreign wineries (through their subsidiary/partner wine importing companies). As a result, independent wine importers are pressured to realign their product portfolio and target market to avoid direct competition against the large-scale retail companies.
- There are many stand-alone liquor/wine shops, either independent or under franchise chain operation, in metropolitan areas. Some of these wine-oriented liquor stores, in particular those operated directly by leading wine import companies offer the most extensive selections of wine targeting serious wine consumers. The majority of sales in these liquor/wine shops is from mid-class through premium segment products retailing at KRW30,000 up to

KRW100,000. Convenience stores are another emerging player in the market. Although each outlet currently carries a limited number of products (about a dozen), convenience stores now offer the most extensive retail network in Korea as the total number of outlets across the nation is fast increasing (reached 30,000 stores at the end of 2015). Currently, there is no strong zoning regulation in Korea that restricts the number and location of alcohol beverage retailers in a given area (except for designated 'school areas' where no bars are allowed), which is partly responsible for the high number of alcohol beverage retail outlets in the market.

- Currently, sales of alcoholic beverage products through on-line channel, including Internet, postal mail and TV home-shopping, are prohibited in Korea (the only exception is officially recognized Korean traditional alcohol beverage products by small volume producers).
- Wine sales through the off-premise retail channel peak during the following local holiday seasons: Korean Thanksgiving Day ("*Chu-Sok*", late September), Christmas, New Year's Day, Lunar New Year's Day (early February), Valentine's Day (mid-February), and Parents' Day (mid-May).

5-2. ON-PREMISE MARKET

- The on-premise channel (restaurants and bars) currently accounts for less than 30 percent of the total wine sales in Korea. Large-scale food service companies, such as franchise restaurant chains and five-star hotels, generally buy wine directly from importers while wholesalers bridge importers and smaller-scale restaurants and bars. Local laws prohibit restaurants and bars from procuring alcohol beverages from off-premise retail stores. Although restaurants and bars currently face weaker wine sales under the sluggish economy, it is notable that the number of restaurants and bars that serve wine is on a steady rise, reflecting increased popularity of wine-food pairing among the general consumers. The quality and variety of wine offered by restaurants vary widely depending on the food and target consumers that the restaurant serves. Dedicated wine bars and Western restaurants in five-star hotels would carry the most extensive wine selections in the sector, most of which are mid-class through premium segment products. In general, restaurants and bars add much higher mark-ups on wine than off-premise retail stores. Many wines are available exclusively in restaurants and bars as the importers do not want consumers to develop price resistance to the products by making them also available in retail stores at lower prices.

6. MARKET ENTRY STRATEGY

- Mainly due to the on-going economic downturn, Korean wine importers are maintaining a very conservative stance when it comes to launching new wine. The importers may not react to new product offers from foreign suppliers unless the product in question indicates strong market potential particularly in terms of international acclaims earned by the wine (R. Parker, Decanter and Wine Spectator are some of the most influential sources for new product evaluation); value-quality proposition in comparison to leading products in the target segment; and promotional supports offered by the supplier.

- Korean traders highly value face-to-face contacts when developing business relationship with new foreign suppliers. Personal visits to Korea allow new-to-market suppliers to gain contacts with Korean importers as well as hands-on knowledge about local market trends. Contact information of Korean wine importers is available from ATO Seoul upon request. Facility and equipment of ATO Seoul, including meeting rooms, wine glasses and a small kitchen are also available to new-to-market suppliers.
- Wine trade shows are an efficient venue for new-to-market American wine suppliers to develop contacts with a large number of Korean wine buyers. Many established Korean importers and distributors attend key wine trade shows around the world, including Vinexpo, Vinitaly, ProWine. Below food and wine trade shows in Korea could also be considered:

(1) Seoul Food & Hotel (www.seoulfoodnhotel.co.kr) is the most important food trade show held annually in Korea. This is the only show in Korea that is officially endorsed and sponsored by USDA/FAS. 2017 show will be held May 16-19. For registration information, please contact the American Pavilion organizer, Oak Overseas (rhood@oakoverseas.com).

(2) The Seoul International Wines & Spirits Expo (www.swsexpo.com) is also an important annual event dedicated to wine and alcohol beverage products. The show opens around late April each year.

- Various regional wine organizations in the United States offer export assistant programs to their member suppliers, including trade delegations to key foreign markets and invitation of foreign buyers to local wine events. New-to-market suppliers are recommended to contact affiliated organizations for more information about available supports.

(1) California Wine Institute:

Phone: 415-512-0151

Fax: 415-356-7569

Internet Home-page: www.wineinstitute.org

(2) Napa Valley Vintners Association:

Phone: 707-968-4213

Fax: 707-963-3488

Internet Home-page: www.napavintners.com

(3) Washington State Wine Commission:

Phone: 206-667-9463

Fax: 206-583-0573

E-mail: info@washingtonwine.org

Internet Home-page: www.washingtonwine.org

(4) Oregon State Wine Board:

Phone: 503-228-8336

Fax: 503-228-8337

E-mail: info@oregonwine.org

Internet Home-page: www.oregonwine.org

SECTION III: COST & PRICING

A combined effect of import duty, local taxes, logistics costs and distributor mark-ups makes retail price of an imported wine in Korea several times higher than in the export country.

1. DUTIES, TAXES, MARK-UPS

- Korea applies a complicated duty and tax system to imported alcoholic beverages. The table below summarizes import duties and local taxes applied to American alcohol beverage products imported into Korea as of 2016.

Table 5: Import Duties and Taxes on American Alcoholic Beverages in Korea

Product	Import Duty	Liquor Tax	Education Tax
Fruit Wine	0%	30%	10%
Beer	8.6%*	72%	30%
Bourbon Whiskey	0%	72%	30%

*Note: The 30 percent base import duty on American beer is phased out over seven years under KORUS FTA. As a result, American beer shall enter Korea duty free on January 1, 2018.

- The following table illustrates the effects of import duty, taxes and distributor mark-ups on a bottle of \$10 (CIF value) American wine imported into Korea:

Table 6: Effects of Import Duties, Taxes and Mark-ups on American Wine

A	CIF* Invoice Value	\$10.00
B	Import Duty: A x 0%	\$0.00
C	Liquor Tax: (A+B) x 30%	\$3.00
D	Education Tax: C x 10%	\$0.30
E	Subtotal: (A+B+C+D)	\$13.30
F	Value Added Tax **: E x 10%	\$1.33
G	Handling fees for customs clearance ***: A x 8%	\$0.80
H	Total cost of wine upon customs clearance: (E+F+G)	\$15.43
I	Typical Importer-Distributor-Retailer Mark-ups ****:	
	1. Importer's selling price to large-scale retail store (hypermarket): (mark-up 15-40%)	\$16.22- 19.74
	2. Importer's selling price to wholesaler: (mark-up 15-20%)	\$16.22- 16.92
	3. Importer's selling price to luxury hotel: (mark-up 40-50%)	\$19.74- 21.15
J	1. Wholesaler's selling price to liquor store: (mark-up 15-30%)	\$18.65- 22.00

K	1. Hypermarket store's retail price: (mark-up 20-30%)	\$19.46- 25.66
	2. Liquor store's retail price: (mark-up 30-40%)	\$24.24- 30.79
	3. Luxury hotel restaurant's selling price: (mark-up 50-200%)	\$29.61- 63.45

* CIF is an export price inclusive of insurance and freight cost to an entry port in Korea.

**The paid Value Added Tax (VAT) is eventually refunded to the importer as the tax is carried over to the consumer.

***In addition to import duty and taxes, additional cost of about 8 percent of CIF value will occur for miscellaneous expenses, including paperwork, inspection, warehousing, and transportation. The amount of this additional cost depends mainly on the kind of inspection to which the shipment is subject. For example, warehousing fee will increase significantly if a detailed chemical inspection is required instead of document inspection.

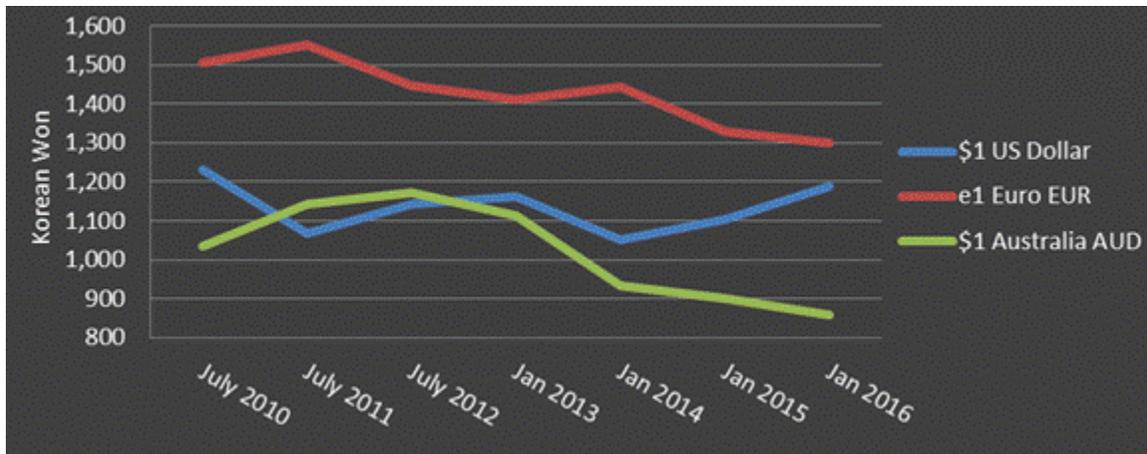
****Each mark-up calculation is based on \$14.10, the cost of wine upon customs clearance (H: \$15.43) minus the value added tax (F: \$1.33).

- Thus, a bottle of \$10 imported American wine typically retails for about \$19 to \$26 in hypermarket stores; \$24 to \$31 in independent liquor stores; and \$30 to \$63 in luxury hotel restaurants in Korea. The amount of mark-up added by the distributors largely depends on the volume of transaction. Products transacted in a large-volume would be added with minimum mark-ups. Because price discount has been the key sales tactic used by the distributors, mark-ups planned by the distributors usually incorporate eventual discounts offered upon sales. In addition, distributors are supposed to take the risk of low return on cash investment for slow wine sales. As a result, actual profits that distributors earn from sales could be much lower than what is shown on the table above.

2. CURRENCY EXCHANGE RATE

- Retail price of imported wine in Korea is directly affected by shift of exchange rates. The value of U.S. dollar has been on a significant increase since early 2014 whereas competitors' currency, euro and Australian dollar in particular, has been on a down turn. As a result, American wine's value proposition in Korea is being challenged.

Figure 10: Shifts of Exchange Rate of U.S. Dollar, Euro, Australian dollar against Korean Won



Source: Korea Exchange Bank

SECTION IV: MARKET ACCESS

1. LICENSES

- By law, only licensed liquor importers are allowed to import alcohol beverages, including wine. There is no ceiling on the number of licenses issued, so any qualified candidate can obtain a liquor import license. Currently there are over 500 licensed liquor importers, but marketers estimate that about 50 of them currently maintain an active business. Moreover, a dozen leading importers account for over 70 percent of total imports. Importers are allowed to sell directly to wholesalers, retailers (restaurants and liquor stores), and individual consumers (through the importer's own wine shops only). However, importers are not allowed to purchase from other importers or from wholesalers. A few of the leading importers operate wholesale business and retail wine shops under separate wholesale and retail licenses, a tactic to maintain greater control of the distribution channel.

2. LABELING

- Korean law requires a separate Korean language label on imported wine. In most cases, the Korean language label (sticker) is attached to the back of the bottle manually by the importer in the duty-free warehouse before customs clearance. The Korean language label should contain the following information:
 - (1) Product Name (e.g., Robert Mondavi Cabernet Sauvignon)
 - (2) Country of origin (e.g., U.S.A)
 - (3) Product Type (e.g., Grape Wine)
 - (4) Importer's name, address, and phone number
 - (5) Date of bottling (e.g., Year-Month-Day or Julian Code)
 - (6) Alcohol percentage and product volume (e.g., 13.5%, 750 ml)
 - (7) Name of major ingredients (e.g., Grape)

(8) Name of place where the product can be returned or exchanged in case the product has any defect.

(9) Instructions for proper storage

(10) Name of food additives used (e.g., Sulfur Dioxide)

(11) Mandatory health warning clause

(12) Mandatory warning clause against liquor sales to minors.

(13) Name of designated distribution channel (only required on bottles sold in retail stores. Bottles sold in retail stores should be marked "For Home Use".)

- Fruit images or photos are not allowed on the label of food and beverage products, including wine, if the product contains synthetic flavors only for the fruit images shown on the label.
- American origin wine with USDA organic certification is allowed to be labeled and marketed as organic wine in Korea based on the United States-Korea Organic Equivalency Agreement implemented in 2014.

3. INSPECTIONS & FOOD SAFETY STANDARDS

- The Korean government implemented 'Special Act on Imported Food Safety Management' in August 2016, which mandates advance registration of foreign facilities for product entry into Korea. As a result, American suppliers are required to register the processing facility (wineries) of the wine that they export to Korea no later than seven days prior to the shipment's arrival in Korea. For details of the new regulation, please refer to the [GAIN Report](#) (KS1609, March 11, 2016) published by the Agricultural Affairs Office of the U.S. Embassy Seoul (available in www.fas.usda.gov under Attaché Report section).
- The Korean government implemented a new requirement in June 2016 that imported processed food and beverage products, including alcohol beverages that are subject to document inspections should submit electronic photos of the product label for customs clearance. This is a measure to make sure that the product imported is the same as what is reported on the document. If no photo is submitted, there would be a delay in the customs clearance as the inspector would have to visit the warehouse and check the identity of the product.
- Imported foods and beverages, including alcohol beverages, are subject to mandatory food safety inspections upon arrival in Korea. There are two kinds of inspections: detailed inspection (chemical analysis) and visual inspection (document inspection).
- The first commercial shipment of new-to-market wine is mandated to a detailed inspection, which under Korean laws should take no longer than 10 working days (in case of incubation test, up to 14 working days). However, importers claim that in practice it could take longer. For the detailed inspection, importers are required to submit one sample bottle of each wine to the inspection authority along with detailed product information such as major ingredient list and processing flow chart. Once detailed inspection on the first shipment

confirms no potential health concerns, subsequent shipments of the same product will be subject to visual (document) inspections. The visual inspection should take no longer than 3 working days provided that the product in the subsequent shipment is identical to the product in the first shipment with respect to label, product name, ingredients and net volume (vintage change is not recognized as a reason for requiring detailed inspection). However, local authority maintains a policy to require detailed inspections randomly on a significant portion of subsequent shipments of identical products.

- The cost of mandatory lab analysis for detailed inspection has been on a steep increase over the last few years. At the moment, each detailed inspection costs the importer about \$300 of fee.
- Korean labeling regulations for alcohol percentage allows for a +/- 0.5 percent point margin of error for the difference between the labeled and actual alcohol content. For example, a wine labeled as 12 percent alcohol must be measured within 11.5 percent to 12.5 percent range.
- Several shipments of imported wine have reportedly failed the import inspection in recent years as the Korean lab analysis found presence of sorbic acid in the wine while sorbic acid was not listed as an additive used on the product label. Korean authority uses HPLC method for testing sorbic acid. HPLC has a 1.5 ppm detection limit, which is far more sensitive than other methods used by regular wineries around the world. American suppliers should take extra caution not to declare 'not detected' claim for sorbic acid (thus not listing it on the product label) based on the result of its less sensitive analysis method.
- The Korean government is paying more attention to food safety issues for imported food. When a new food safety issue associated with specific additive or ingredient arises, local authority may enforce additional safety standards and tests on imported wine. For example, testing for Melamine was temporarily added to detailed inspection for imported wine from March 2009 until June 2011 due to a food safety scandal involving Melamine in imported Chinese processed foods. Tests for Ochratoxin A and lead have been newly added to detailed inspection for imported wine since July 2010. Korean authorities are considering adding tests or strengthening safety standards for imported wine include Ethyl carbamate and Cyclamate. Local consumer groups have also been questioning the safety of Sulfur dioxide in wine.
- The table below summarizes key food safety and additive standards currently applied to fruit wine in Korea:

Table 7: Korean Food Safety & Additive Standards on Wine

	Key Issue	Standards
1	Methanol	Not more than 1.0 mg/ml
2	Food Preservatives	Preservatives other than those specified below shall not be detected in fruit wine. (1) Sorbic acid (Potassium Sorbate or Calcium Sorbate): Less than 0.2

		g/kg as Sorbic acid (2) Sulfur dioxide: Not more than 0.35g/kg
3	Ochratoxin A	No more than 2.0 microgram/kg
4	Melamine	Not more than 2.5 mg/kg
5	Lead	Not more than 0.2mg/kg
6	Food Additives that can be added to fruit wine	(1) Sweeteners: Sugar, Glucose, Fructose, Wheat-gluten, Molasses syrup, Maple syrup, Oligo sugar, Honey, Aspartame, Sorbitol, Stebioside, Sorbitol, Sucralose, Acelsulfame potassium, Erythritol, Xylitol (2) Acids: Lactic acid, Succinic acid, Acetic acid, Fumalic acid, Gluconic acid, Tartaric acid, Citric acid, Malic acid, Tannic acid (3) Seasonings: Amino acids, Glycerin, Dextrin, Hop, Minerals (4) Flavorings: Ester compounds, Aldehyde compounds, Fusel compounds (5) Colorants: Compounds allowed by the food safety law
7	Total Heavy Metals	Below 10 mg/Kg
8	Food poisoning pathogens	Should not be detected: <i>Salmonella spp.</i> , <i>Staphylococcus aureus</i> , <i>Vibrio paraphaemolyticus</i> , <i>Clostridium perfringens</i> , <i>Listeria monocytogenes</i> , <i>Escherichia coli O157:H7</i>

- For more information about Korean regulations and standards on imported agricultural products, please refer to [FAIRS Country Report](#) (Food and Agricultural Import Regulations and Standards / KS1551, December 29, 2015) published by the Agricultural Affairs Office of the U.S. Embassy Seoul (available in www.fas.usda.gov under Attaché Report section).

SECTION V: KEY CONTACTS AND FURTHER INFORMATION

A. USDA/FAS OFFICES IN KOREA

(1) For information about the Korean agricultural market and regulations, please contact:

U.S. Agricultural Trade Office Seoul (ATO)

Korean Address: Room 303, Leema Building, 42 Jongro 1-gil, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-ATO, APO, AP 96205-5550

Telephone: +82-2 6951-6848 Fax: +82-2 720-7921

E-mail: atoseoul@fas.usda.gov

Internet homepage: www.atoseoul.com

Agricultural Affairs Office, U.S. Embassy Seoul (AAO)

Korean Address: U.S. Embassy, 188 Sejong-daero, Jongro-gu, Seoul, Korea

U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-AgAff, APO, AP 96205-5550

Telephone: +82-2 397-4297 Fax: +82-2 738-7147

E-mail: agseoul@fas.usda.gov

(2) For further information about sanitary/export certificate requirements, please contact:

U.S. Animal Plant and Health Inspection Service Seoul (APHIS)
Korean Address: Room 303, Leema Building, 42 Jongro 1-gil, Jongro-gu, Seoul, Korea
U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-APHIS, APO, AP 96205-5550
Telephone: +82-2 725-5495 Fax: +82-2 725-5496
E-mail: yunhee.kim@aphis.usda.gov
Internet Homepage: www.aphis.usda.gov

B. STATE REGIONAL TRADE GROUPS (SRTG)

For information about export assistant programs offered by State Regional Trade Groups, please contact:

Western United States Agricultural Trade Association (WUSATA)
2500 Main Street, Suite 110, Vancouver, WA 98660-2697, USA
Telephone: 360-693-3373 Fax: 360-693-3464
E-mail: export@wusata.org
Website: www.wusata.org

Food Export Association of the Midwest USA
309 W. Washington St., Suite 600, Chicago, Illinois 60606, USA
Telephone: 312-334-9200 Fax: 312-334-9230
E-mail: thamilton@foodexport.org
Website: www.foodexport.org

Food Export USA - Northeast Region of the United States
150 S. Independence Mall West, 1036 Public Ledger Building, Philadelphia, PA 19106, USA
Telephone: 215-829-9111 Fax: 215-829-9777
E-mail: jcanono@foodexportusa.org
Website: www.foodexportusa.org

Southern United States Agricultural Trade Association (SUSTA)
2 Canal Street Suite 2515, New Orleans, LA 70130, USA
Telephone: 504-568-5986 Fax: 504-568-6010
E-mail: susta@susta.org
Website: www.susta.org

C. ADDITIONAL SOURCES OF INFORMATION & SUPPORTS

(1) For information on the non-agricultural commercial and industrial products in Korea, please contact:

U.S. Commercial Service

Korean Address: U.S. Embassy, 82, Sejong-ro, Jongro-gu, Seoul, Korea
 U.S. Mailing Address: U.S. Embassy Seoul, Unit 15550-USCS, APO, AP 96205-5550
 Telephone: +82-2 397-4535 Fax: +82-2 739-1628
 E-mail: Seoul.office.box@mail.doc.gov
 Homepage: www.buyusa.gov/korea

(2) The American Chamber of Commerce in Korea (AMCHAM) offers a local network of American businesses by sector, through which its over 1,000 member companies can share market intelligence and collaborate on new business opportunities.

Address: #4501 Trade Tower, 159-1 Samsung-dong, Gangnam-gu, Seoul, Korea
 Telephone: +82-2 564-2040 Fax: +82-2 564-2050
 E-mail: amchamrsvp@amchamkorea.org
 Homepage: www.amchamkorea.org

APPENDIX: WINE IMPORT STATISTICS

Table 8: South Korea's Annual Wine Imports

Year	Value	Growth	Volume	Growth
1992	5,644	65.3%	2,109,570	68.9%
1993	5,855	3.7%	3,233,975	53.3%
1994	8,104	38.4%	4,225,764	30.7%
1995	13,633	68.2%	6,181,234	46.3%
1996	16,406	20.3%	5,852,665	-5.3%
1997	22,809	39.0%	9,390,449	60.4%
1998	6,491	-71.5%	2,558,561	-72.8%
1999	15,122	133.0%	5,766,043	125.4%
2000	19,802	31.0%	8,052,562	39.7%
2001	23,109	16.7%	8,861,609	10.0%
2002	29,432	27.4%	11,522,387	30.0%
2003	45,783	55.6%	13,979,720	21.3%
2004	57,979	26.6%	15,897,748	13.7%
2005	67,654	16.7%	18,984,127	19.4%
2006	88,607	31.0%	22,194,500	16.9%
2007	150,364	69.7%	31,810,196	43.3%
2008	166,512	10.7%	28,795,281	-9.5%
2009	112,450	-32.5%	23,009,429	-20.1%
2010	112,888	0.4%	24,568,118	6.8%
2011	132,079	17.0%	26,003,973	5.8%
2012	147,260	11.5%	28,083,744	8.0%
2013	171,840	16.7%	32,557,220	15.9%
2014	182,178	6.0%	32,962,649	1.7%
2015	189,786	4.2%	37,052,468	12.4%

Source: Korea Trade Information Service Database (KOTIS)
Unit: \$1,000 (Value), Liter (Volume)

Table 9. Korea's Wine Imports by Country and Category (Year 2014-2015)

Country	Category	2014		2015	
		\$1,000	Liter	\$1,000	Liter
France	Red Bottle	37,012	3,490,341	34,735	3,693,876
	Red Bulk	7	436	43	1,154
	White Bottle	5,116	422,531	5,472	493,572
	White Bulk	2	53	3	140
	Sparkling	13,212	455,190	15,901	555,488
	Others Bottle	202	13,956	557	64,560
	Others Bulk	99	3,790	119	4,851
	Total	55,650	4,386,297	56,830	4,813,641
Chile	Red Bottle	34,165	7,149,863	37,702	7,699,666
	Red Bulk	500	318,396	410	279,527
	White Bottle	2,769	768,955	3,185	861,049
	White Bulk	272	288,006	174	146,577
	Sparkling	224	111,320	192	42,495
	Others Bottle	20	3,068	36	6,653
	Others Bulk	10	1,161	8	629
	Total	37,960	8,640,769	41,707	9,036,596
Italy	Red Bottle	15,000	1,949,185	14,307	1,911,347
	Red Bulk	307	138,394	290	107,204
	White Bottle	8,556	1,744,124	6,272	1,586,984
	White Bulk	138	59,375	176	61,531
	Sparkling	6,043	1,093,652	6,502	1,406,956
	Others Bottle	273	31,658	259	43,850
	Others Bulk	28	2,886	30	3,632
	Total	30,345	5,019,274	27,836	5,121,504
The U.S.	Red Bottle	16,867	2,425,941	17,642	2,389,778
	Red Bulk	550	314,829	653	348,541
	White Bottle	2,690	385,011	3,669	448,597
	White Bulk	175	122,368	175	119,394
	Sparkling	468	85,103	473	103,905
	Others Bottle	296	28,450	304	18,841
	Others Bulk	161	3,396	170	4,961
	Total	21,207	3,365,098	23,086	3,434,017
Spain	Red Bottle	8,944	3,041,063	9,739	3,421,042
	Red Bulk	748	847,192	640	890,450
	White Bottle	1,070	506,969	1,123	651,932
	White Bulk	1,644	2,089,283	1,705	3,039,030
	Sparkling	1,245	289,085	1,448	427,765
	Others Bottle	94	18,257	86	21,828
	Others Bulk	20	2,100	20	2,543

	Total	13,765	6,793,949	14,761	8,454,590
Australia	Red Bottle	6,085	944,060	6,870	1,266,904
	Red Bulk	10	3,178	59	30,758
	White Bottle	1,198	229,743	1,220	300,541
	White Bulk	0	0	6	2,880
	Sparkling	524	99,715	463	102,229
	Others Bottle	33	4,462	33	3,913
	Others Bulk	30	2,243	53	4,090
	Total	7,880	1,283,401	8,704	1,711,315
Argentina	Red Bottle	3,340	591,778	3,898	714,554
	Red Bulk	0	4	0	18
	White Bottle	265	69,205	147	26,871
	White Bulk	17	24,000	16	24,003
	Sparkling	25	4,545	19	2,520
	Others Bottle	3	480	0	0
	Others Bulk	3	318	4	466
	Total	3,653	690,330	4,084	768,432
South Africa	Red Bottle	1,325	376,582	920	294,140
	Red Bulk	74	49,283	73	59,680
	White Bottle	170	44,494	671	266,729
	White Bulk	28	19,700	7	5,780
	Sparkling	2,687	1,264,594	2,805	1,617,564
	Others Bottle	21	8,147	293	118,338
	Others Bulk	2	320	3	350
	Total	4,307	1,763,120	4,772	2,362,581
Germany	Red Bottle	706	205,966	605	210,612
	Red Bulk	1	33	1	54
	White Bottle	2,115	311,844	1,859	343,146
	White Bulk	2	309	0	0
	Sparkling	245	53,481	841	234,864
	Others Bottle	79	5,380	62	5,236
	Others Bulk	15	456	12	527
	Total	3,163	577,469	3,380	794,439
New Zealand	Red Bottle	286	27,904	296	30,442
	Red Bulk	0	0	0	9
	White Bottle	1,588	163,402	1,563	167,714
	White Bulk	0	9	0	9
	Sparkling	26	2,901	31	3,998
	Others Bottle	3	266	17	441
	Others Bulk	6	275	4	367
	Total	1,909	194,757	1,911	202,980
Others	Red Bottle	794	131,848	968	172,873
	Red Bulk	40	37,421	82	66,425
	White Bottle	871	55,875	985	65,374

	White Bulk	4	109	4	97
	Sparkling	74	7,893	180	31,255
	Others Bottle	331	8,381	234	14,180
	Others Bulk	225	6,658	262	2,169
	Total	2,339	248,185	2,715	352,373
Grand Total	Red Bottle	124,524	20,334,531	127,682	21,805,234
	Red Bulk	2,237	1,709,166	2,251	1,783,820
	White Bottle	26,408	4,702,153	26,166	5,212,509
	White Bulk	2,282	2,603,212	2,266	3,399,441
	Sparkling	24,773	3,467,479	28,855	4,529,039
	Others Bottle	1,355	122,505	1,881	297,840
	Others Bulk	542	23,603	685	24,585
	Total	182,178	32,962,649	189,786	37,052,468

Source: Korea Trade Information Service Database (KOTIS)

Unit: \$1,000 (Value), Liter (Volume)